


CITY OF BROOKSVILLE

MEMORANDUM

AGENDA ITEM NO. F-5
9-13-04

TO: Mayor Mary A. Staib
Vice Mayor Joe Bernardini
Council Member Joseph E. Johnston, III
Council Member Richard E. Lewis
Council Member E. E. "Ernie" Wever, Jr.

FROM: Richard E. Anderson 
City Manager

DATE: September 9, 2004

SUBJECT: Independent Audit

In 2000 Council waived the competitive requirement and approved an agreement with Oliver and Company for the 99/00 Fiscal Year, with an option for the following two years and the agreement was subsequently extended for a fourth year (see attached memo from Finance Director and proposed agreement).


The attached proposal from Oliver and Company would continue the current price level (hourly rates with a total estimate at \$40,000 - \$42,000) with an additional first year fee of \$10,000 - \$15,000 for reviewing implantation of required accounting rule changes, and \$2,000 - \$3,000 to revise their computer software to be compatible with the City's accounting system. The prices for the remaining two years would be a maximum of \$45,000.

We could request proposals for this service or the purchasing policy could be waived and staff authorized to negotiate an agreement with the existing vendor. There are obvious advantages to a multi-year arrangement with the audit firm which has performed the annual audit for almost 20 years, as they are completely familiar with our organization, operations, procedures, and Finance personnel. If an agreement is to be authorized, the City responsibility for the Firm's auditing software tools will be reviewed/ clarified. Conversely there may be advantages to using another firm which might reduce our costs, or might have another perspective.

Council direction is requested.

CITY OF BROOKSVILLE FINANCE DEPARTMENT

Date: September 8, 2004
To: Mr. Richard Anderson, City Manager
Cc: Karen Phillips, CMC, Director of Administration
From: Stephen J Baumgartner, Finance Director
RE: Audit Services/Oliver & Company



Mary Beth Gary wrote you a letter dated 8/20/04 in regard to providing Audit Services to the City for the next 3 years. Her letter is detailed and very clear, but Council needs to give us direction as to what their wishes are? Does the Council want to go out for RFQ? Does the Council want staff to negotiate a contract with Oliver & Company and bring it back to Council?

A brief history may help. In the 99/00, 00/01, and 01/02 Audit years the base contract was \$32,000. In 02/03 the 3 year contract was extended one more year at a 25% increase from \$32,000 to \$40,000 with Council approval.

So this matter can be resolved please schedule Audit Services on an upcoming Council agenda.

Thank you.

sjb

Attachments

U:sbaum/mydocs/word/memo Oliver & Co Audit Services 04 05



Oliver & Company, P.A.

Certified Public Accountants
Business & Financial Consultants

Members of:
American Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants
PCPS: The AICPA Alliance for CPA Firms

August 20, 2004

Richard Anderson, City Manager
City of Brooksville
201 Howell Avenue
Brooksville, Florida 34601

We are pleased to confirm our understanding of the services we are to provide City of Brooksville for the years ended September 30, 2004, 2005 and 2006. We will audit the basic financial statements of City of Brooksville as of and for the years ended September 30, 2004, 2005 and 2006. Also, the document we submit to you will include the Combining Statements by Fund Type and will be subjected to the auditing procedures applied in our audit of the basic financial statements.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act; and the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and will include tests of the accounting records of City of Brooksville and other procedures we consider necessary to enable us to express an unqualified opinion that the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the Schedule of Expenditures of Federal Awards and on City of Brooksville's compliance with laws and regulations and its internal controls as required for a single audit. If our opinion is other than unqualified, we will fully discuss the reasons with you in advance. If for any reason, we are unable to complete the single audit engagement, we will not issue a report as a result of this engagement.

The management of City of Brooksville is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of the basic financial statements with generally accepted accounting principles, and that federal awards programs are managed in compliance with applicable laws and regulations.

In planning and performing our audits for the years ended September 30, 2004, 2005 and 2006, we will consider the internal control in order to determine our auditing procedures for the purpose of expressing our opinions on City of Brooksville's basic financial statements and on its compliance with requirements applicable to major programs and to report on the internal control in accordance with OMB Circular A-133, and not to provide assurance on the internal control.

We will obtain an understanding of the design of relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the basic financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the basic financial statements. Tests of controls are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on the internal control and, accordingly, no opinion will be expressed.

We will perform tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing and detecting material noncompliance with compliance requirements applicable to each of City of Brooksville's major federal awards programs. Our tests will be less in scope than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed.

We will inform you of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. We will also inform you of any nonreportable conditions or other matters involving internal control, if any, as required by OMB Circular A-133.

Compliance with laws, regulations, contracts, and grant agreements applicable to City of Brooksville is the responsibility of City of Brooksville's management. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of City of Brooksville's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit will not be to provide an opinion on overall compliance with such provisions, and we will not express such as opinion.

Our audit will be conducted in accordance with the standards referred to in the second paragraph. OMB Circular A-133 requires that we plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with certain provisions of laws, regulations, contracts, and grants. Our procedures will consist of the applicable procedures described in OMB's compliance supplement. The purpose of our audit will be to express an opinion on the City of Brooksville's compliance with requirements applicable to major programs.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will request certain written representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. As required for a single audit, our audit will include tests of transactions related to federal award programs for compliance with applicable laws and regulations. Because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. However, we will inform you of any material errors and any fraud that come to our attention. We will also inform you of any other illegal acts that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a single audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

We understand that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you. This responsibility includes the establishment and maintenance of adequate records and related controls, the selection and application of accounting principles, and the safeguarding of assets. Management is also responsible for identifying and ensuring that the City complies with applicable laws and regulations.

The workpapers for this engagement are the property of Oliver & Company, P.A. and constitute confidential information. However, we may be requested to make certain workpapers available to a grantor agency pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of Oliver & Company, P.A. personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to the grantor agency. The grantor agency may intend, or decide, to distribute the photocopies of information contained therein to others, including other governmental agencies.

We expect to begin our audit on approximately January 15 following each fiscal year end and to issue our reports no later than March 31 of that year. If the City's books are not closed and audit schedules prepared by the agreed upon date to begin fieldwork, we will need to meet with City management to discuss a new audit time line.

Proposed audit time line for the year ending September 30, 2004 (similar schedules will be developed for audits of subsequent fiscal years.)

September 2004
September 30, 2004
January 17, 2005

February 25, 2005
March 11, 2005
March 21, 2005
March 31, 2005

- Interim audit procedures
- Fiscal year end
- Books are closed for all fund and account groups of the City; general ledger, supporting workpapers and reports are provided to the independent auditors; field work begins
- field work complete
- draft financial statements and management letter
- final reports
- Annual Report to the State

Our fees for these services for the first year of this agreement are estimated as follows:

	<u>Minimum</u>	<u>Maximum</u>
Base Audit Fee	\$40,000	\$42,000
GASB 34 Implementation	10,000	15,000
MIP Software Conversion Procedures	<u>2,000</u>	<u>3,000</u>
Total Audit Fees	<u>\$52,000</u>	<u>\$60,000</u>

Fees for the subsequent years of this agreement are estimated to be in the range of \$42,000 to \$45,000. As part of this agreement, we will provide the City with twenty-five (25) bound copies of the audit reports. The fee is based upon anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Interim progress billings will be submitted for services rendered to date and the auditor shall be paid pursuant to the following schedule:

1. 25% of the fee on October 1 of each year
2. 20% of the fee on January 1 of each year
3. 25% of the fee on February 1 of each year
4. 20% of the fee on March 1 of each year
5. 10% of the fee at completion of the exit conference

The addition of an enterprise fund or more than one bond issue will be considered an extension of the scope of the audit covered by this agreement. Additional fees to cover this work will need to be agreed to by the City and Oliver & Company, P.A. prior to the affected year's engagement.

The City may request additional services at any time from the auditor. To the extent that these services are an extension of the scope of this audit as a result of increased regulatory requirements, the addition of agencies or funds to be audited, or any other reason beyond the control of the auditor, the auditor will be compensated for such extra services at the following hourly rates:

1. Partners \$150.00
2. Managers \$100.00
3. Seniors \$ 75.00
4. Juniors \$ 50.00
5. Clerical \$ 30.00

Requests for additional services that are beyond the scope of the audit will be addressed in writing and approved by City Council. Invoices are rendered pursuant to this subsection shall reflect the hours of worked performed.

In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, you will be obligated to compensate us for all time expended and to reimburse us for all out of pocket expenditures through the date of termination.

Richard Anderson, City Manager
City of Brooksville
Brooksville, Florida 34601

August 20, 2004
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Either party may cancel this Agreement by written notice to the other party not later than May 31 of the fiscal year to be audited.

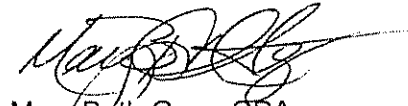
This Agreement may be extended two (2) fiscal years beyond September 30, 2006 by mutual agreement of both parties.

Government Auditing Standards requires that we provide you with a copy of our most recent quality control review report. Our 2001 peer review report accompanies this letter.

We appreciate the opportunity to be of service to City of Brooksville and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

OLIVER & COMPANY, P.A.



Mary Beth Gary, CPA
Director

MBG/mp

Response:

Attest:

By: Mary A. Staib

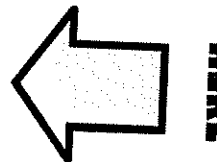
Karen M. Phillips, City Clerk

Title: Mayor

Date: _____

Approved as to legal form & content for the reliance
of the City of Brooksville only:

David LaCroix, City Attorney



Oliver & Company, P.A.